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Report Highlights:

"What's New, Eh?" * Second Detection of Potato Wart this Season on P.E.I. * Lower Beef Production next Year , Higher Pork Output * Southern Ontario Dairy Farmers to Supply Michigan Processor * Former Ag Minister Warns Against End to Supply Management * Grain Stocks down Sharply for 2002 Reports Statistics Canada * Canadian Wheat Board Pulls out of Market * Western Canadian Wheat Farmers Pick Jail over Paying Fines * Ontario Wheat Board Wants Right to Issue Own Export Certificate * Traders Estimate Increased Feed Grain Imports into Eastern Canada * Canada May Export Wheat to Iraq, Despite Earlier Denials * Wet Weather Continues to Hamper Saskatchewan Harvest Progress and Downgrade Crops * Transportation Agency Denies Ferroequus's Application to Use Facilities Owned by CN Rail * Canadian Food Inspection Agency Proposals to Amend the Variety Registration System
...and MORE!

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives. Substantive issues and developments are generally also reported in detail in separate reports from this office.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

SECOND DETECTION OF POTATO WART THIS SEASON ON P.E.I.: Late last week, the Canadian Food

Inspection Agency (CFIA) announced the second detection this season of potato wart disease in Prince Edward Island. An initial discovery this season was made a week earlier. The incidents are the first outbreaks of the fungus disease since the initial discovery of potato wart in a P.E.I. potato field in October 2000. Following that outbreak, the CFIA and the Animal and Plant Health Inspection Service (APHIS) of USDA developed a three-year operational workplan that includes certain restrictions on fields within a buffer area. CFIA and APHIS officials are in P.E.I. this week to assess the situation to determine if any changes to the current control measures are required.

LOWER BEEF PRODUCTION NEXT YEAR , HIGHER PORK OUTPUT: Fewer cattle will be fed in western Canada in 2002, particularly in the last half of the year, but drought related cow marketings and an increase in Ontario slaughter levels could push total Canadian cattle slaughter above the 2001 level. Canadian beef production is expected to be lower in 2003 and 2004 reflecting lower inventories. Present prospects point to reduced numbers of U.S. feeder cattle moving north under the Northwest Cattle Project in the upcoming 2002/2003 season as tight feed grain supplies and high feed prices are expected to weaken demand for imported feeders. Canada's hog inventory reached a record level in 2002 and hog numbers are forecast to continue to grow in 2003. The pig crop has the potential to reach 30 million head in 2003, more than 20% greater than five years ago. Hog slaughter capacity in Canada continues to increase moderately. Pork production is forecast to be higher in 2003 and 2004. For more information and statistical data see post's Livestock Annual, CA2108.

SOUTHERN ONTARIO DAIRY FARMERS TO SUPPLY MICHIGAN PROCESSOR:

According to the September 9 edition of *Agriweek*, eight dairy farmers in southern Ontario's Simcoe County, who do not have marketing board quotas, have formed Georgian Bay Milk Co. to sell over 10,000 litres of industrial milk a day directly to a processor in Michigan. All regulations for out-of-quota export milk are being followed, including rules set by the Ontario milk marketing board. The farmers are receiving 41 cents per litre, or 25% more than the Canadian export price. Low prices offered by Canadian processors for milk used strictly for export products have discouraged non-quota export production.

FORMER AG MINISTER WARNS AGAINST END TO SUPPLY MANAGEMENT: According to the August 22 edition of the *Western Producer*, former federal agriculture minister John Wise is urging Ottawa to be politically vigilant in its defence of supply management tariff protections when a new world trade agreement is negotiated next year. Wise, who was agriculture minister in 1979/80 and 1984/88, argued that based on his own experience negotiating the Canada-United States Free Trade Agreement in 1987/88, there will be little enthusiasm among government officials or trade negotiators to defend high tariffs in the face of demands for reductions. Supply management import controls were excluded from the FTA and later the North American Free Trade Agreement. However, the federal Conservative government in its dying days during the early 1990s and then the newly elected Liberal government were unable to exclude the protections from the new world trade agreement signed in 1994. Import controls were replaced by high tariffs that protected the system in the short term but will be under strong pressure during the current round of World Trade Organization negotiations. "There is no doubt they will be under attack," Wise said. "The government and their negotiators must resist, although some reduction does seem inevitable." Wise said he was speaking out because he sees some farm export lobbies, domestic processors and newspaper columnists lining up to demand that supply management protections be bargained away because they are bad policy and inconsistent with Canada's trade liberalization stance.

SASKATCHEWAN FARMER LOSES APPEAL IN CANOLA FIGHT: The September 6 edition of *Good Morning Ontario* reported that the Federal Court of Appeal has unanimously dismissed all 17 grounds of appeal submitted by Saskatchewan farmer Percy Schmeiser, who was found guilty last year of violating Monsanto's patent on the Roundup Ready gene in canola. In March 2001, farmer Percy Schmeiser of Bruno, Sask., was ordered to pay C\$19,000 in damages for using Roundup Ready canola. He was also ordered to cover Monsanto's court costs of C\$153,000. The court also rejected a bid by Monsanto to see the damages raised to more than C\$100,000.

GRAIN STOCKS DOWN SHARPLY FOR 2002 REPORTS STATISTICS CANADA: In a release dated September 10, Statistics Canada reported that total stocks of cereals, oilseeds and special crops on farms were down sharply from 2001 and were well below the 10-year average. The low stocks were a direct result of the poor production in 2001 that also reduced exports and decreased domestic usage. For 2002, the tight stock situation coupled with another disastrous crop will result in one of the most difficult years for the agriculture community in western Canada. For more information, see GAIN report CA2109.

CANADIAN WHEAT BOARD PULLS OUT OF MARKET: According to a September 6 *Canadian Press* article picked up the *Globe and Mail*, the Canadian Wheat Board (CWB) has pulled out of the world grain market because of concerns over tight supplies this year. A CWB spokesperson said it doesn't mean the agency is out of business, but it does mean it must look carefully at every sales request on a case-by-case basis and take care of its best customers first. The pullout effectively means the CWB isn't beating the bushes for any new customers, but farmers needn't worry about their grain going unsold, as the CWB doesn't anticipate a problem in selling the grain it does have. Ralph Goodale, minister responsible for the Canadian Wheat Board, said it is a difficult situation but he understands the move. "I think by taking the position that it has it is, it is in fact for the long-term re-enforcing its credibility because people will be able to know around the world, whether the news is good or bad, that they'll be able to count on what the Canadian Wheat Board says," Mr. Goodale said. "You're dealing with a marketing organization that has a very long established reputation."

NATIONAL POST EDITORIAL ATTACKS CWB: An editorial in the September 10 edition of the *National Post* writes: "The Canadian Wheat Board announced last week that it will leave the world wheat market and simply meet existing customers' needs with the grain it has on hand. The drought devastating the Prairies will likely make this year's harvest the smallest in 30 years - hence the Board's decision. The Board is the only legal marketing agent for Western Canada's wheat. It is extraordinary to consider the fact that farmers risk criminal charges if they sell their produce independently. The rationale for these strictures is, the Board says, that by pooling sales, it gets a better price than would be possible if farmers went to market alone. The Board adds that tinkering with the system would merely enrich transnational corporate giants. Whatever the truth or otherwise of the Board's claims to get good prices, there is no justification whatever for allowing the perpetuation of this standing violation of farmers' property rights. Voluntary pooling is one thing, but compulsion quite another. Fortunately, there are signs that the semi-Soviet status quo may soon change. In June, the House of Commons' standing committee on agriculture and agri-foods asked the Board to consider allowing free market sales of wheat on a trial basis. We hope that this request amounts to an ultimatum. If the Board does not reform its practices, Parliament should amend or scrap the Canada Wheat Board Act. It's time to set Western farmers free."

WESTERN CANADIAN WHEAT FARMERS PICK JAIL OVER PAYING FINES: A dozen farmers in Alberta are getting ready to go to jail after repeatedly refusing to pay fines imposed following a 1996 demonstration against the Canadian Wheat Board (CWB), reports the *National Post*. "We didn't do anything wrong in the first place," Ron Duffy, a farmer in Lacombe, Alberta tells the Post. "We just took, in some cases, C\$8 of wheat into Montana in 1996. I have been in front of 15 judges at this point. We're guilty of taking our own property and selling it to the highest bidder just like absolutely everybody else in the free world can do." Duffy says he owes C\$6,500, down from an original penalty of C\$7,500. He says he took one sack of grain across the border to protest wheat board policies. "They're trying to teach us a lesson: 'Do what you're told. You're a peasant farmer. Go back and grow us some more wheat so we can give it away for you.'" Duffy says they must serve 16 ½ days for each C\$1,000 in fines. His sentence will be 107 days. "I am doing this because the books are absolutely closed [at the Canadian Wheat Board]. There's a secret monopoly. They won't tell us who they sell our grain to, they won't tell us how much they sell it for, they won't tell us what the profit margin is. It is wrong." The 12 farmers were convicted and fined in March, 1997, for violating the Canada Customs Act. In a related article from the September 11 edition of *Agriline*, elected CWB director Jim Chatenay is one of those farmers who says he'll go to jail rather than pay the fines stemming from border demonstrations against the CWB's monopoly in 1996 for taking a bushel of wheat to Montana without a permit.

ONTARIO WHEAT BOARD WANTS RIGHT TO ISSUE OWN EXPORT CERTIFICATE: An article from the September 9 edition of *Agriline* reported that the Ontario Wheat Producers' Marketing Board wants the right to issue its own export certificates for wheat sold by Ontario farmers. The change would require amendments to the *Canadian Wheat Board Act*, which currently reserves certificate granting authority exclusively to the Canadian Wheat Board.

TRADERS ESTIMATE INCREASED FEED GRAIN IMPORTS INTO EASTERN CANADA: In the September 9 edition of *Agriline*, feed grain imports into eastern Canada from eastern Europe could reach 500,000 metric tons in the 2002/03 crop year due to the drought in western Canada, according to some private grain trade estimates. In the 2001/02 crop year, feed wheat imports were just 97,000 metric tons.

CANADA MAY EXPORT WHEAT TO IRAQ, DESPITE EARLIER DENIALS: The September 12 edition of *Good Morning Ontario* reported that Canada may export wheat to Iraq this year despite earlier official denials of contacts between the two sides, according to federal Ag Minister Lyle Vanclief. But he said Canada was not considering shopping around to import foreign high-grade milling wheat. "We supplied some wheat to Iraq last year," Vanclief told *Reuters*. "It is my understanding that there may be some of that type of commerce taking place this year." "Even though Canada has had some severe rain and weather problems in the wheat-producing area in the last two or three years, we have sufficient high grade milling wheat to fulfill our domestic requirements," he said. Last month, Iraq's trade minister said Baghdad was in talks over wheat imports with Canada - a top world producer. But the Canadian Wheat Board (CWB), which holds a monopoly on grain exports from Canada's prairies, said the two countries had held no talks in view of poor local crop conditions.

VANCLIEF MEETS RUSSIAN COUNTERPART: Agriculture and Agri-Food Minister Lyle Vanclief met this week in Moscow with Alexei Gordeyev, Russian Minister of Agriculture and Deputy Prime Minister. Canada supports Russian accession to the World Trade Organization and better market access for agriculture and agri-food producers in both countries. "While progress continues to be made, much work remains in order to bring Russia's laws and regulations into conformity with WTO norms," said Vanclief in a press release. Vanclief said he discussed with Minister Gordeyev the need for Russia to develop import policies for agri-food products that are consistent with international technical standards for health and safety. In addition, Vanclief said he urged his Russian counterpart to work toward the use of less distorting types of support when it reforms its agriculture sector and to commit to not using export subsidies in the future. One of the objectives of Vanclief's trip was to follow-up on the Prime Minister's Team Canada Mission to Russia earlier this year during which Canadian and Russian businesses (all sectors) signed 77 trade deals worth C\$337 million (see CA2016). Last year, two-way Canada-Russia agri-food trade totaled nearly C\$90 million.

WET WEATHER CONTINUES TO HAMPER SASKATCHEWAN HARVEST PROGRESS AND DOWNGRADE CROPS: Wet weather continues to slow harvest progress and downgrade crops, according to Saskatchewan Agriculture, Food and Rural Revitalization's latest crop report. Crop reporters report 12% of the crops are combined, with a further 10% being utilized for alternative uses. The five-year (1997-2001) average is 56% combined at this time of year. Harvest is furthest advanced in the southeast and southwest corners where 17% of the crop is off. It is reported that nine percent of the spring wheat crop has been harvested and about 26% of the wheat harvested to date is expected to grade No. 1 Canada Western (CW). This is down from last week's estimate of 38%, and well below the 10-year average of 52%. Downgrading of crops continued this past week, with more bleaching, staining, sprouting, and moulding. Wind and rain lodged crops, scattered swaths, flattened swaths, and shelled crops. Second growth continues to cause harvesting problems, but may provide for extra livestock feed. Grasshoppers and saw flies continue to cause yield and quality loss.

GRAIN SHIPMENTS HALTED AT PORT OF PRINCE RUPERT: According to the September 10 and 11 editions of *Agriline*, grain shipments were halted on September 10 after Grain Workers Union (GWU) unionized employees there refused to cross a picket line set up by Vancouver members of the GWU. Management from the British Columbia Terminal Elevator Operators Association (BCTEOA) is seeking an injunction to end the picketing. Prince Rupert re-opened last week to handle grain diverted from Vancouver, where terminals have been closed since August 26 as a result of a management lockout. The Canadian Wheat Board has asked Ottawa to amend the *Canada Labour Code* to prevent internal grain industry disputes from disrupting grain movement. Current legislation protects grain shipments only from third-party disputes.

TRANSPORTATION AGENCY DENIES FERROEQUUS'S APPLICATION TO USE FACILITIES OWNED BY CN RAIL: In a September 10 decision from the Canadian Transportation Agency (CTA) an application by the Ferroequus Railway Company seeking the right to run and operate trains, in order to haul grain, over specified lines of the Canadian National Railway Company (CN) between the Camrose, Alberta interchange and the Port of Prince Rupert, British Columbia, was denied. The Agency, in its majority decision, concluded that a statutory running right is an "exceptional remedy" that requires actual evidence of market abuse or failure before an application under section 138 of the *Canada Transportation Act* may be granted. The CTA, in assessing the other elements relevant to the public interest, also determined that "the granting of Ferroequus's application would have a negative impact on many of the participants in the grain handling and transportation system" and that "the inefficiencies that would be imposed on the grain handling and transportation system participants other than

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Ferroequus would not be offset by Ferroequus's operating efficiency." The Agency carefully considered the impact of its decision on grain producers. It stated: "The issue of the efficiency of the grain handling and transportation system is important because it affects the competitiveness of the Canadian grain industry in world markets and ultimately affects grain producers and other system participants, who pay for inefficiencies in the system through lower net returns, lost sales, or both." Four of the five members on the Agency panel considering the application concluded that running rights are "an intrusive regulatory intervention (that) is not warranted in this case". Running rights allow one railway to operate using the tracks and facilities of another railway.

ONTARIO FARMERS ADOPTING HERBICIDE-TOLERANT SOYBEANS: According to a September 11 article from *just-food.com*, increasing numbers of farmers in Canada are adopting herbicide-tolerant (HT) soybeans and environmentally friendly no-till practices. A study by the George Morris Centre, surveying 352 Ontario soybean growers on their cropping practices, found that 30% of Ontario's soybean acreage was planted to HT seed in 2001. The report says that the new technology makes "good economic and environmental sense," because producers report making 1.7 fewer field passes than they did three years ago. Put into the context of the 2002 soybean crop, farmers continue to vote with their seeders, says the report. Adoption rates have increased again from 30% in 2001 to an estimated 40-45% of 2002 soybean acreage. HT seed is part of a major shift in growing soybeans. The seed is genetically modified to tolerate the herbicide glyphosate. This means that farmers can spray glyphosate over an emerging soybean crop to kill weeds without damaging the crop. The genetically modified seed can be sown with no-till equipment that makes a small slice in the soil and drops seed into crop residue from the previous year. This system makes moldboard ploughing unnecessary, a process that makes soil more vulnerable to erosion and requires more fuel use. The report, entitled, "Agronomic, Economic and Environmental Impacts of the Commercial Cultivation of Glyphosate Tolerant Soybeans in Ontario" can be downloaded from the Internet at: <http://www.georgemorris.org/CBIFINALReport0702CCB.pdf>

CANADIAN FOOD INSPECTION AGENCY PROPOSALS TO AMEND THE VARIETY

REGISTRATION SYSTEM: According to the Canadian Food Inspection Agency (CFIA), as a result of meetings with various recommending committee and commodity organizations this past winter/spring, the Canadian Food Inspection Proposal of January, 2002 has been further revised. Included in the revised proposals are: (1) Mandatory registration will be required for seed of varieties of all agricultural crop kinds and plants with novel traits (PNTs) that are imported, advertised or sold in Canada. (2) Performance Information - a minimum of one year of performance testing in at least one specific area in Canada or, where applicable in the US, that has been conducted by or overseen by a third party prior to an application being made for registration of a variety. (3) Kernel Visual Distinguishability (KVD) - until such time as rapid testing techniques are available to replace KVD as a segregation tool, KVD requirements will be retained for durum, spring and winter wheat, rye and triticale for the CWB Area and white winter wheat classes in Eastern Canada. The CFIA's proposed timetable for the process follows: 1. Complete Benefit/Cost Analysis of Proposed Variety Registration changes (Fall 2002); 2. Initiate process for drafting amendments to Seeds Regulations (Fall 2002); 3. Draft amendments to Seeds Regulations published in Canada Gazette Part I for 30 day comment period (Winter 2002); 4. Variety Registration Office (VRO) review revised protocols to be used by Recommending Committees operating under the new registration system (Winter 2002); 5. Amendments to Seeds Regulations published in Canada Gazette Part II (Summer 2003); 6. Implement new registration system (Fall 2003). It should be noted that since several key activities are yet to be completed by the Canadian Food Inspection, the timelines for implementation are only estimates. Until such time as amended Regulations have completed the Canada Gazette Part II process, the existing registration system and merit requirements are still in effect. To view the complete set of proposals, visit the following CFIA website: <http://www.inspection.gc.ca/english/plaveg/variet/revisdprope.shtml>

Did You Know ...that the Canadian agri-food processing sector contributes about 2.4 percent of the Canadian GDP. In 1999, food processing was one of the top five manufacturing industries in terms of shipments- - C\$56.1 billion worth of processed food and beverage products. Of this total, C\$10.7 billion was exported. (Source: Communications Canada)

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Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2109	Grain Stocks down Sharply for 2002 Reports Statistics Canada	9/10/2002
CA2108	Livestock Annual	9/09/2002
CA2107	This Week in Canadian Agriculture, Issue 31	9/05/2002

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